

## Groupe SEB

Price EUR122.65

The success story is not over

Fair Value EUR132 vs. EUR125 (+8%)

BUY

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	122.7 / 79.5
Market Cap (EUR)	6,153
Ev (BG Estimates) (EUR)	8,328
Avg. 6m daily volume (000)	53.00
3y EPS CAGR	25.2%

At the Analysts' Meeting yesterday, management gave more details about the growth drivers that should play positively not only in H1 but also in H2, despite some weak trends in key markets such as Brazil or the US. Since SEB's stand-alone fundamentals are clearly strong, we believe that all eyes will be on the integration of EMSA (in Q3) and WMF (probably in Q4). We have nudged up our FY16 estimates and updated our beta assumption, leading to our new FV of EUR132 vs. EUR125.

## ANALYSIS

- Performances within the group's top 20 markets are more heterogeneous.** Whereas only two countries on the list were down in H1 2015 (Belgium and Germany), this year seven markets were in negative territory, although for two of these (**Italy** and **Mexico**), the sales decline was explained by the non-renewal of loyalty programmes (LPs) this year. This higher volatility did not prevent SEB from posting robust growth in key markets: **China** (+17% LFL), **Germany** (+13.5%), **Japan** (+11%) and **South Korea** showed double-digit growth over H1 and we can also highlight the good performance in France (+5.7% LFL but +9.1% stripping out the LP impact). These solid underlying trends justify the group's confidence in H2, which historically, accounts for ~56% of FY revenue.
- Some initiatives in the US (~10% of sales) and Brazil (~4% of sales) to cope with a complicated retail environment.** SEB's "traditional customers" in the **US** (Macy's, Sears, etc.) are suffering from the ramp-up at e-retailers (e.g.: Amazon), which now account for ~20-25% of the US SDA market, leading to a destocking phase in cookware in Q1. Thanks to careful inventory management and a good push in the high end cookware segment (All-Clad), trends have gradually improved (overall LFL almost flat vs. double-digit decline in Q1). As announced earlier this year, SEB is relocating its SDA plant in the Northern part of **Brazil** in order to improve its competitiveness there and deal with a challenging macro environment (-15% LFL in Q2 vs. slight decline in Q1). This relocation has implied restructuring costs of EUR16m in H1 but no further costs are expected this year.
- Fewer LPs in H1 2016: ~1pp impact on LFL growth.** At the FY 2015 results in February, the group's management declared that 2016 would be a "normal year" for LPs (i.e. approx. EUR80m) after a busy 2015 year (EUR130m), representing a delta of **1pp on FY LFL growth**. In H1, this was exactly the negative effect registered by SEB as some LPs in Italy, Mexico and elsewhere were not renewed this year. Consequently we anticipate the same negative impact for H2 2016.
- EMSA and particularly WMF are the next significant catalysts.** Since the acquisition of WMF is not completed yet, there was not much new said, although the group reiterated all the targets in terms of accretive impacts, adding weight to our assumptions for 2017: we anticipate a positive scope effect of ~21% on the top line, an accretive impact of ~24% on adj. EBITDA and of ~20% on EPS. These estimates are based on a cautious synergy plan of EUR10m for 2017 and EUR40m for 2020 (SEB's guidance).
- Minor adjustments to our FY16 adjustments (+1% on EPS).** Against better-than-expected LFL growth (+6.9% vs. +5%e) and favourable trends in EMEA and China, we have raised our LFL growth forecast to 5.6% vs. +5% previously (guidance: "above 5%"). This move is partly offset by a more harmful FX impact. We leave our adj. EBIT margin assumption unchanged (+60bp to 9.6%). At the bottom of the P&L, a lower tax rate (24.5% vs. +26% initially, guidance: ~24%) is partly offset by higher one-off charges (restructuring costs, revaluation of property assets in Germany, etc.).

## VALUATION

- These small adjustments (EUR1) and an update to our beta assumption (EUR6) lead to our new FV of EUR132 from EUR125. Buy recommendation confirmed to play the robust operating performance of SEB stand-alone that will be combined with the integration of EMSA and WMF. As a reminder, we see limited risks surrounding these deals (excellent track-record with M&A, low cost of financing).

## NEXT CATALYSTS

- Analyst Day on 4th October // Q3 2016 Sales on 25th October.

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